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STATE FOR EEB/TPP/ABT GCLEMENTS
COMMERCE FOR ITA/OTEXA MD'ANDREA
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SUBJECT: BANGLADESH TEXTILES AND APPAREL PRODUCTION

REF: STATE 114799

¶1. Summary: Bangladesh has performed well in the post-quota era, despite fears of competition from China and India. In 2006 it raised its share of the U.S. market, and sales to the EU market, helped by duty-free access, have soared. The volume of exports increased by 16 percent in the year ending June 30, 2007, despite several months of political turmoil and labor unrest. Overall prices in the Ready Made Garment (RMG) sector fell by approximately one percent from the year earlier. The industry continues to face challenges related to increased global competition, infrastructure, governance and political uncertainty. End Summary.

Requested Data

¶2. Post is pleased to provide the data requested reftel, together with information on the sources and reliability of the data. Answers below are keyed to reftel questions. Data provided for fiscal years (FY) 2006 and 2007 represent the Bangladesh fiscal years which ended June 30, 2006 and 2007, respectively.

A) Total Industrial production in calendar year 2006 was USD 17.4 billion and in calendar year 2007 is projected at USD 19.1 billion.

B) Total apparel production in FY 2006 was USD 8.1 billion and for FY 2007 was USD 9.4 billion.

C) Information on the share of textiles and apparel in Bangladesh's total imports is not available. However, approximately 77% of Bangladesh's total exports were in the textile and apparel sector in FY 2006 and 78% in FY 2007.

D) Exports to the United States in this sector came to USD 2.6 billion in FY 2006 and USD 3.1 billion in FY 2007.

E) Reliable data on total manufacturing employment is scarce. However, it is estimated that approximately 10% of Bangladesh's 60 million-strong labor force is engaged in manufacturing, or roughly 6 million people (WB).

F) Approximately 2.4 million were employed in ready made garment (RMG) manufacturing in 2006. Data on textile employment is less reliable, probably ranging between 500,000 and 900,000. These figures do not include those engaged in traditional handloom production or textile-related service employment.

¶3. Data sourcing and reliability: Post collected information from the three major industry associations) Bangladesh Textile Mills Association (BTMA), Bangladesh Garments Manufacturers and Exporters Association (BGMEA) and the Bangladesh Export Promotion Board (BEPB), as well as from the World Bank,s Development Indicators database (April 2007) and the Asian Development Bank,s Quarterly Economic Update (June 2007). Finding current and accurate data is difficult in Bangladesh because of the unavailability of timely official data, lack of coordination between different agencies, lack of trained workforce in this area, and the long processing time to organize collected data. Some of the figures were derived from data in different sources. The data provided is believed to be the best information available.

Additional Information

¶4. Bangladeshi RMG manufacturers are under continuing pressure from buyers to reduce prices. Having already declined in 2005-06, prices continued to decline in 2006-07. The total value of exports continues to rise because of expanding export volume, but profit margins are thinning. BGMEA reported a reduction in orders beginning in late 2006, citing growing competition from Vietnam and Cambodia and a weakened U.S. market.

¶5. Bangladesh has clearly benefited from U.S. and EU restrictions on certain Chinese apparel exports, and many in the industry worry that the removal of those restrictions in 2008 will negatively impact the RMG sector. The government

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has neither imposed nor considered imposing quotas or other restrictions on Chinese textile and apparel products, as Bangladesh depends on Chinese imports for textile industry inputs.

¶6. The government of Bangladesh has no policies in place to address dislocated or displaced workers. Bangladesh already has some of the lowest labor costs in the global textile and apparel industry. Bangladesh's success in the global market, coupled with rising domestic prices for staples, has created pressure for increased wages. These pressures have created tension between factory owners and labor, with owners feeling they have less flexibility in addressing labor demands. Bangladesh has been under a state of emergency since January 2007, when an interim, or caretaker government, took power with a mandate to prepare the country for free and fair national elections, which are currently scheduled for December 2008. The overall political environment of emergency rule has restricted labor union activity.

¶7. Chronic problems of infrastructure and governance continue to bedevil the industry (and economic growth generally) and threaten the industry's competitiveness in the medium term. Electricity demand is growing at 8% annually, yet there has been a net loss in generating capacity over the past five years due to lack of new plants and deterioration of the installed base. Operational capacity is estimated at 50%-60% of current demand, and rolling blackouts are common. Although manufacturers often have captive power generators or standby diesel generators, high fuel costs and unreliable natural gas supplies increase costs and undermine productivity. The interim government has had some infrastructure successes, particularly in port management and facilities. Efforts are also underway to streamline customs procedures, although it remains to be seen how effective these efforts are in improving efficiency.

¶8. Bangladesh is not a partner in any free-trade agreements with the United States. Because of Bangladesh,s recent expansion in exports, some industry experts fear that hostility from AGOA and CAFTA partners may lead to

unfavorable trade policies in the future. Although the caretaker government has taken some positive steps, one disadvantage is that the state of emergency,s limits on political activity have restricted labor organizations. Such restrictions, along with the failure of factories to comply with labor reforms, have prompted a review of Bangladesh's GSP status.

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